

Message Text

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ACTION NEA-12

INFO OCT-01 EUR-25 EA-11 ISO-00 AEC-11 AID-20 CEA-02

CIAE-00 CIEP-02 COME-00 DODE-00 EB-11 FEA-02 FPC-01

H-03 INR-10 INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07

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FM AMEMBASSY NEW DELHI

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INFO AMEMBASSY COLOMBO

AMEMBASSY DACCA

AMEMBASSY ISLAMABAD

AMEMBASSY JIDDA

AMEMBASSY KATHMANDU

AMEMBASSY LONDON

AMEMBASSY RANGOON

AMEMBASSY TEHRAN

AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

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E.O. 11652: N/A

TAGS: ENRG, IN

SUBJECT: ENERGY: GOI PURCHASE OF ESSO APPROVED; AGREEMENT SIGNED

REF: A) NEW DELHI 1999 B) NEW DELHI 2337

SUMMARY: THE GOI'S ESSO (ACQUISITION OF UNDERTAKING WITHIN INDIA) BILL, 1974, PASSED BOTH HOUSES OF PARLIAMENT, AND THE AGREEMENT HAS BEEN SIGNED BY PRINCIPALS OF ESSO AND THE GOVERNMENT'S PETROLEUM MINISTRY. THE BILL AWAITS THE PRESIDENT'S SIGNATURE

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TO FINALIZE THIS PROTRACTED EFFORT --WITH NO FURTHER DIFFICULTIES

FORESEEN -- EXCEPT, OR UNLESS, THE UPCOMING PUBLIC SECTOR MANAGEMENT NOW ALLOWS ONE OF THE COUNTRY'S MOST EFFICIENT AND HIGHLY PROFITABLE REFINERIES (ESSO, BOMBAY) TO SUCCUMB TO THE COMMON ILLS OF A GOI UNDERTAKING. HIGHLIGHTS AND COMMENTS ARE GIVEN BELOW. END SUMMARY.

1. ON MARCH 14, PETROLEUM MINISTRY SECRETARY P. K. DAVE AND ESSO EASTERN GENERAL MANAGER A. G. NEFF JOINTLY SIGNED AN AGREEMENT FOR THE GOI'S PURCHASE OF 74 PERCENT EQUITY IN ESSO'S BUSINESS INTERESTS IN INDIA. THE AGREEMENT FOLLOWS PARLIAMENT'S MARCH 12 APPROVAL OF ITS ESSO (ACQUISITION OF UNDERTAKING WITHIN INDIA) BILL, 1974, AND PRECEDES PRESIDENTIAL APPROVAL, EXPECTED SHORTLY.

2. UNDER THE AGREEMENT, THE GOI HAS PURCHASED A 74 PERCENT SHARE OF THE ESSO STANDARD REFINERY IN BOMBAY, ESSO'S MARKETING ORGANIZATION (1,900 RETAIL OUTLETS, EIGHT TERMINALS, AND SEVERAL REGIONAL STORAGE FACILITIES), AND A 24 PERCENT SHARE OF LUBE INDIA LIMITED (TO CONVERT THE 50:50 JOINT VENTURE LUBRICATING PLANT TO A 74 PERCENT EQUITY). THE NEW ORGANIZATION, AS A SINGLE PUBLIC SECTOR, GOI-CONTROLLED, UNDERTAKING HAS BEEN NAMED HINDUSTAN PETROLEUM CORPORATION LIMITED (HPCL) (REFS A AND B).

3. COMMENT: WHILE REPORTS CLAIM THAT STAFF PERSONNEL WILL REMAIN UNCHANGED, HPCL WILL, HOWEVER, REQUIRE A NEW GENERAL MANAGER. WE UNDERSTAND THAT FINANCE MINISTRY JOINT SECRETARY S. KRISHNASWAMI HAS BEEN NOMINATED FOR THIS POSITION, THOUGH NOT WITHOUT OPPOSITION IN THE GOI. KRISHNASWAMI IS WELL KNOWN TO EMBOFFS AND CONSIDERED HERE TO BE A GOOD CHOICE. HE KNOWS THE OIL BUSINESS REASONABLY WELL AND, IF SELECTED, IS EXPECTED TO BE A COMPETENT ADMINISTRATOR. HE WILL, HOWEVER, INHERIT AN OPERATION THAT HAS ALWAYS FUNCTIONED EFFICIENTLY AND AT A PROFIT. THE ESSO REFINERY AND ANCILLARIES ARE KNOWN TO BE AMONG THE BEST IN INDIA. HE MAY FIND, THEREFORE, THAT HE WILL RECEIVE VERY FEW COMMENDATIONS INDEED IF HE MERELY SUCCEEDS IN MAINTAINING THE EXCEPTIONALLY HIGH DEGREE OF EFFICIENCY THAT HAS BEEN STANDARD PROCEDURE IN THE PAST, BUT THAT CRITICISM WILL BE SEVERE IF THE ORGANIZATION DETERIORATES TO LEVELS COMMONLY SEEN ELSEWHERE IN INDIA'S PUBLIC SECTOR. REPORTEDLY, NEFF WILL REMAIN IN BOMBAY AS ESSO'S (I.E. EXXON-HOUSTON'S) REPRESENTATIVE IN INDIA. END COMMENT.

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4. THE CURRENT GOI/ESSO AGREEMENT WILL REMAIN IN EFFECT FOR SEVEN YEARS. IN 1981, AND UPON FULL PAYMENT OF REPATRIABLE RUPEES 240.0 MILLION (DOLS 30.0 MILLION), INCLUDING 6.5 PERCENT (TAX FREE) INTEREST ON ANNUAL PAYMENT BALANCES, THE GOI WILL ASSUME 100 PERCENT OWNERSHIP OF ALL FACILITIES. IN A SEPARATE (PARALLEL) AGREEMENT, ESSO HAS AGREED TO REMAIN AS THE NEW ORGANIZATION'S ONLY CRUDE OIL SUPPLIER OF RECORD FOR THE FIRST

THREE YEARS OF THE PURCHASE AGREEMENT AND WILL SHARE THIS RESPONSIBILITY WITH OTHER (UNNAMED) SUPPLIERS DURING THE REMAINING FOUR YEARS. ESSO WILL THUS PROVIDE HPCL WITH ABOUT 20.0 MILLION BARRELS (2.75 MILLION TONS) OF CRUDE ANNUALLY DURING THE REMAINDER OF 1974, AND UNTIL EARLY IN 1977, AND WILL THEN CONTRIBUTE ABOUT 10.0 MILLION BARRELS (1.38 MILLION TONS) ANNUALLY TO THIS REFINERY'S THROUGHPUT UNTIL THE AGREEMENT TERMINATES IN 1981. NO KNOWN PROVISIONS HAVE BEEN MADE FOR CRUDE SUPPLIES FROM ESSO (OR OTHER SOURCES) FOLLOWING THE GOI'S ASSUMPTION OF 100 PERCENT INTEREST IN HPCL (IN 1981).

5. THE GOI'S INDUSTRIAL POLICY AS APPLIED TO OIL REFINING AND MARKETING, RESTRICTS PLANT EXPANSION AND GROWTH IN MARKETING IN THE PRIVATE SECTOR. FOR A NUMBER OF YEARS, ESSO'S REFINERY HAS HAD A QUASI-LEGAL INSTALLED CAPACITY OF 25.03 MILLION BARRELS (3.50 MILLION TONS) ANNUALLY. ITS LEGALLY-LICENSED OPERATING LEVEL WAS, HOWEVER, PEGGED AT 17.88 MILLION BARRLES (2.50 MILLION TONS) PER YEAR. OCCASIONALLY, DURING NATIONAL EMERGENCIES AND OTHER SHORT PERIODS OF URGENT NEED, THE GOI PERMITTED ESSO MARGINAL INCREASES ABOVE ITS LICENSED LEVEL OF OUTPUT, BUT REFUSED TO CONSIDER THE COMPANY'S REPEATED REQUESTS FOR PERMISSION TO SIGNIFICANTLY EXPAND ITS REFINERY -- EVEN THOUGH DOMESTIC CONSUMER DEMAND FOR PETROLEUM PRODUCTS FAR OUTSTRIPPED PRODUCTION. THE POLICY BARRIER HAS BEEN REMOVED, HOWEVER, WITH THE GOI'S ACQUISITION OF MAJORITY CONTROL OF THE ORGANIZATION. WHILE THERE HAVE BEEN NO OFFICIAL ANNOUNCEMENTS YET OF AN EARLY EXPANSION PLAN, COMMENTS MADE RECENTLY IN PARLIAMENT AND THE PRESS SUGGEST THAT ESSO MAY SOON BE ASKED TO ASSIST THE GOI IN A PROGRAM DESIGNED TO INCREASE THE BOMBAY REFINERY'S INSTALLED CAPACITY TO (POSSIBLY) 43.0 MILLION BARRELS (6.0 MILLION TONS) ANNUALLY. WE WOULD EXPECT ESSO TO ACCEPT THE OFFER, IF MADE, ON AN ENGINEERING CONTRACT BASIS, AND WITH THE PROVISION THAT THE EXPANDED CRUDE REQUIREMENTS BE MET FROM ESSO SOURCES OVER AN LIMITED OFFICIAL USE

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ECONOMICALLY FEASIBLE PERIOD OF TIME.

6. A MARCH 14 GOI PRESS RELEASE PROVIDES AN INTERESTING FOOTNOTE IN ITS EXPLANATION OF "THE PHASED TAKEOVER OF ESSO". THE STATEMENT CLAIMS THAT "DIFFERENCES BETWEEN THE PRICES AT WHICH THE FOREIGN OIL COMPANIES IMPORT
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Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
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